



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2017 Biennium

Bill #	HB0423	Title:	Revise education funding laws related to oil and natural gas production taxes
Primary Sponsor:	Staffanson, Scott	Status:	As Amended in Senate Committee

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|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
Expenditures:				
General Fund	\$0	\$515,280	\$515,280	\$515,280
State Special Revenue	\$0	(\$515,280)	(\$515,280)	(\$515,280)
Revenue:				
General Fund	\$0	\$0	\$0	\$0
State Special Revenue	\$0	(\$736,115)	(\$736,115)	(\$736,115)
Net Impact-General Fund Balance:	<u>\$0</u>	<u>(\$515,280)</u>	<u>(\$515,280)</u>	<u>(\$515,280)</u>

Description of fiscal impact: HB 423 amends 20-9-310, MCA, to change the limit on oil and natural gas production tax revenue that school districts can retain. The fiscal impact of this bill is a state general fund cost of \$0.5 million each year beginning in FY 2017 and a reduction of state special revenue of \$0.7 million each year.

FISCAL ANALYSIS

Assumptions:

1. Current law allows school districts that receive oil and natural gas production taxes revenue (ONGPTR) to retain an amount up to 130% of the school district's maximum general fund budget. The law also allows school districts with a maximum general fund budget of less than \$1.5 million to retain up to 150% of the school district's maximum general fund budget amount.
2. HB 423, as amended, proposes to increase the limit for school districts to 150% of the school district's maximum general fund budget for an elementary or high school district with a maximum general fund budget of less than \$1.5 million, a K-12 district with a maximum general fund budget of less than \$3

million, or a school district that retained 150% of its maximum general fund budget in ONGPTR in FY 2015. The revenue in excess of the limits is referred to in the fiscal note as excess ONGPTR.

3. Current law allows that excess ONGPTR is deposited to the State School Oil and Natural Gas Distribution Account to be distributed by the Office of Public Instruction (OPI) according to 20-9-310(4), MCA, if the legislature appropriates funds to OPI for this purpose. This distribution is referred to as the “concentric circle” distribution. The purposes are:
 - a. To schools that are in the same unified school system as the district that would have initially received the Oil and Natural Gas Production Taxes revenue, up to 130% of the receiving school district’s maximum general fund budget.
 - b. To school districts that are immediately contiguous to the district that would have initially received the production tax revenue, up to 130% of the receiving school district’s maximum general fund budget.
 - c. To school districts that are in the same county as the district that would have initially received the production tax revenue, up to 130% of the receiving school district’s maximum general fund budget.
 - d. To school districts located in counties contiguous to the district that would have initially received the production tax revenue and have had a horizontally completed well drilled in the prior three years according to the Department of Natural Resources and Conservation, up to 130% of the receiving school district’s maximum general fund budget.
 - e. Any remaining funds are to be deposited 70% to the Guarantee Account, 5% to the State School Oil and Natural Gas Impact Account, and 25% to the County School Oil and Natural Gas Impact Fund.
4. According to current law, beginning July 1, 2016, 20-9-310, MCA, would direct any excess ONGPTR retained by the Department of Revenue on behalf of school districts to be distributed 70% to the state special revenue (SSR) Guarantee Account, 5% to the SSR State School Oil and Natural Gas Impact Account, and 25% to the SSR County School Oil and Natural Gas Impact Fund.
5. HB 423, as amended, increases the limits allowing school districts to retain additional amounts of the ONGPTR would mean a decrease to excess ONGPTR revenue. OPI estimates that only one school districts receiving ONGPTR would retain an additional \$0.736 million. This would equal a reduced amount of revenue distributed to other school districts per 20-9-310(4), MCA, described in assumption #3 in FY 2016.
6. Current law, 20-9-310(4), MCA, as described in assumption #3 sunsets on June 30, 2016.
7. Under current law, effective July 1, 2016, the OPI must distribute any amount of ONGPTR exceeding the limitation in 20-9-310(1) as follows: 70% to the guarantee account, 5% to the state school oil and natural gas impact account, and 25% to the county school oil and natural gas impact account. These revenue distributions would be reduced beginning in FY 2017 and the two school districts would retain the additional ONGPTR according to HB 423. The following table shows the revenue reductions to the state special revenue (SSR) accounts:

Fund	FY 2016	FY 2017	FY 2018	FY 2019
State School O&G Impact (5%)	\$0	(\$ 36,806)	(\$ 36,806)	(\$ 36,806)
County School O&G Impact (25%)	\$0	(\$184,029)	(\$184,029)	(\$184,029)
Guarantee Account (70%)	\$0	(\$515,280)	(\$515,280)	(\$515,280)
TOTAL	\$0	(\$736,115)	(\$736,115)	(\$736,115)

8. SSR guarantee account revenues are designated as the first source of funding for K-12 BASE aid. A reduction to guarantee account revenue must be offset by an increase to state general fund expenditures to cover the costs of K-12 BASE aid.

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
<u>Fiscal Impact:</u>				
<u>Expenditures:</u>				
Operating Expenses	\$0	\$0	\$0	\$0
TOTAL Expenditures	\$0	\$0	\$0	\$0
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$515,280	\$515,280	\$515,280
Guarantee Account SSR (02)	\$0	(\$515,280)	(\$515,280)	(\$515,280)
State Schl O&G Impact SSR (02)	\$0	\$0	\$0	\$0
County Schl O&G Impact SSR (02)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	\$0	\$0	\$0	\$0
<u>Revenues:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
Guarantee Account SSR (02)	\$0	(\$515,280)	(\$515,280)	(\$515,280)
State Schl O&G Impact SSR (02)	\$0	(\$36,806)	(\$36,806)	(\$36,806)
County Schl O&G Impact SSR (02)	\$0	(\$184,029)	(\$184,029)	(\$184,029)
TOTAL Revenues	\$0	(\$736,115)	(\$736,115)	(\$736,115)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$0	(\$515,280)	(\$515,280)	(\$515,280)
Guarantee Account SSR (02)	\$0	\$0	\$0	\$0
State Schl O&G Impact SSR (02)	\$0	(\$36,806)	(\$36,806)	(\$36,806)
County Schl O&G Impact SSR (02)	\$0	(\$184,029)	(\$184,029)	(\$184,029)

*Sponsor's Initials*_____
*Date*_____
*Budget Director's Initials*_____
Date